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THE IMPACT OF THE GST ON THE COMMUNITY SERVICES SECTOR IN QUEENSLAND

Working Paper No. CPNS3

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ABSTRACT

The impact of the GST has on nonprofit organisations has been largely ignored in the compliance cost literature. Most studies to date, both in Australia and overseas, have focussed exclusively on measuring the nature and extent of GST compliance costs of businesses in the for-profit sector (particularly the impact on small businesses).

This paper examines the impact of *The New Tax System*, and in particular, the GST on Queensland community sector organisations. The results are extracted from a QCOSS report entitled "Taxing Goodwill: The Impact of GST on Community Services" released in October 2001.

Using a range of data collection methods, including large-scale surveys, case studies and focus groups, the findings indicate that the implementation and administration of *The New Tax System* (of which GST is the main element), has imposed significant financial and emotional costs onto the organisations and individuals that operate within this sector.

The results indicate that mean dollar start-up costs of the GST for community sector organisations in the survey was \$5,610 per organisation. In terms of mean dollar recurrent costs of the GST, the findings indicated this to amount to be \$5,600 per organisation annum, which is very similar to the average start-up cost. The findings also clearly indicate that both start-up and recurrent costs of the GST are regressive that is, falling more heavily on smaller nonprofit organisations. The study estimates that implementation of the GST and other parts of *The New Tax System* has cost the community services sector alone over \$39 million in start-up costs and will cost a similar amount each year thereafter for ongoing costs of additional staff, administration and systems support.

The results also highlight significant problems faced by the sector in dealing with other aspects of *The New Tax System*. For example, the results indicate that the sector has faced a significant amount of confusion and misunderstanding about the various endorsement requirements (ITEC, DGR), the need for improved access to information about *The New Tax System*, and the increased responsibility of board members.

The results also indicate that *The New Tax System* has had a profound effect on volunteers. Approximately 9.5% of organisations surveyed replaced a volunteer bookkeeper with a paid position since 1 July 2000 adding to the cost of administration for the organisation. Almost 20% of organisations that rely on volunteers for financial administration have found it harder to find a volunteer bookkeeper or treasurer as a result of the GST and *The New Tax System*. The workload and stress for volunteer bookkeepers and/or treasurers has increased significantly as a result of the GST and *The New Tax System*.

Overall, the findings indicate that most community organisations view the overall impact of the GST and *The New Tax System* as negative for their organisation. This has ultimately resulted in a redirection of resources from service delivery to financial administration to handle the increased workload as a result of the GST and other changes as a result of *The New Tax System*.

1.0 INTRODUCTION

The New Tax System, comprising the goods and services tax (GST), which started on 1 July 2000, represents the most comprehensive change to Australia's taxation system since Federation. However, the collection of these taxes is not a costless activity and registered entities will face costs in complying with the GST.

Since mid-1999, there have been many attempts to quantify the implementation costs of the GST. For example, Tran-Nam (2001) estimated GST start-up costs to be in the order of \$4.3 billion. In July 1999, international accounting firm, Ernst & Young estimated GST start-up costs to be in the vicinity of \$6 billion. This figure was based on a survey of 320 of Australia's top corporations.

Another accounting firm, Arthur Andersen, estimated GST start-up compliance costs for Australian businesses to be approximately \$24 billion, twice the cost of Y2K (as reported in the *Australian Financial Review*, January 6, 2000). Such a figure has been widely discounted.

Most of the Australian studies since 1 July 2000 have focused on measuring the GST implementation costs borne by small businesses. Tran-Nam (2001) has that estimated recurrent GST compliance costs for small businesses will exceed \$1 billion annually, almost five times the initial Government estimate of \$210 million, whilst the average cost of implementing the GST for Victorian small businesses was estimated at \$12,380 (Victoria University, 2001).

In the *Regulation Impact Statement for the Introduction of a Goods and Services* (RIS) released in December 1998, the Federal Government predicted that total gross GST compliance costs to Australian businesses in the first year of implementation would be approximately \$1.91 billion (or \$1,195 per firm). This was based on 1.6 million registrants. This figure was subsequently amended to \$2.03 billion because of the zero-rating of some food items and other changes in July 1999 (ATO 2000, p.9).

Whilst the Federal Government made brief references to non-profit organisations in their analysis, they stated that the compliance costs faced by nonprofits would, in substance, be no different to the compliance costs faced by businesses or government departments. (RIS, 1998, p.4). The 1998 RIS went on to state that the estimated recurrent net compliance costs would be \$210 million, or \$131 per firm (RIS, 1998, p.6.)

Whilst the government made brief references to non-profit organisations in their analysis, the government stated that the compliance costs faced by nonprofits would, in substance, be no different to the compliance costs faced by businesses or government departments. (RIS, 1998, p.4).

Whilst research conducted in Australia, Canada, USA, UK and New Zealand has dealt with VAT and GST compliance costs, none has specifically dealt with the nonprofit sector. This is the case despite the fact that the nonprofit sector plays a vital role in these countries' social and economic development (see Lyons, 2001).

Despite the Federal Governments claims in their "*Regulation Impact Statement for the Introduction of a Goods and Services Tax*", it is contended that GST compliance costs for charities and non-profit organisations will be potentially greater than for-profit organisations due to the following reasons:

- charities have largely remained outside the taxation administration system as most were exempt from income tax and sales tax and were not required to file income tax returns. Hence, they often lack the necessary knowledge or systems to record and process information required by the GST;
- non-profit organisations have different administration and legal characteristics to for-profit entities;
- the non-profit sector had to deal with the most radical amendments to the initial New Tax System legislative design;
- previous studies have confirmed the fact that gross GST compliance costs are regressive, falling heavily on small enterprises. As most non-profit organisations and charities are inherently small by nature, it is expected that their taxation compliance costs will be greater;

- unlike for-profit businesses, which can claim compliance costs as an income tax deduction, most charities, being income tax exempt, have no such opportunity to do so.
- many of the reported savings gained from the elimination of the wholesale sales tax (WST) and state taxes will be unavailable to charitable institutions which were currently exempt; and
- unlike for-profit entities, charities have a high proportion of transactions with mixed GST classifications (taxable v GST-free transactions).

No known study to date has specifically dealt with the nature and extent of GST compliance costs faced by the organisations in the nonprofit sector. The QCOSS research project was the first known research study of its type in Australia or anywhere in the world to specifically assess the impact of *The New Tax System* (particularly the impact of the GST) on community sector organisations

2.0 BACKGROUND TO QCOSS AND THE GST IMPACT RESEARCH PROJECT

The Queensland Council of Social Service Inc. (QCOSS) is the peak statewide body for the community services sector in Queensland. QCOSS is the voice for social justice in Queensland, advocating for the interests of people living in poverty or who are disadvantaged. QCOSS works alongside ACOSS, but is a separately incorporated association. The membership base comprises more than eight hundred individuals and organisations working in the community and human services sector across the state.

QCOSS acknowledged as a matter of considerable concern, the need to monitor and research the impacts of the GST on the community sector. Since 1999, QCOSS has been identifying potential impacts and providing assistance and training to members and other constituents. Of particular concern to QCOSS has been the survival of small, voluntary organisations and the levels of resourcing and infrastructure needed for these organisations to comply with the new regulations.

QCOSS initiated the research project to assess the impact of *The New Tax System* on the services, costs, revenues and other aspects of the operations of not-for-profit community organisations and charities. An independent consultant was engaged to carry out the key elements of the project, which was funded by the Queensland Gambling Community Benefit Fund.

This project included an assessment of the impact of *The New Tax System* on:

- organisation staffing, skills, training and resourcing;
- costs of implementation, administration and compliance;
- revenue, including members fees, fundraising and grants;
- business and accounting practices and processes;
- systems and technology;
- service impacts;
- organisational structures and constitutional arrangements; and
- other impacts.

For many community organisations, the introduction of the GST is the first time they have been exposed to the taxation system and to the Australian Taxation Office. The legislation relating specifically to charities, religious institutions and nonprofit organisations is more complex and subject to more special rules and exceptions than for any other industry group. Although faced with these difficulties, most nonprofit organisations have managed to comply, despite the significant workload and stress.

3.0 RESEARCH METHODOLOGY

The research project consultant completed three surveys and three sets of case studies of organisations over a period of twelve months from July 2000 to July 2001, covering the initial period of implementation of the GST and other parts of *The New Tax System*.

Surveys were sent to approximately 7,000 organisations, which included QCOSS organisational members and organisations listed on the Queensland Department of Premier and Cabinet's database. This database comprises the majority of funded nonprofit organisations delivering community services in Queensland. Approximately 11% of organisations surveyed responded in both major surveys.

The consultants had discussions with over 100 case study organisations. QCOSS also facilitated a focus group discussion in July 2001 with a range of key sector representatives across areas of social policy, taxation and service delivery in Queensland to review the findings and conclusions of the research.

There were three distinct phases of the project:

Phase 1:

- An initial base-line survey of *The New Tax System* impacts in July 2000, completed by 540 organisations. This survey was sent to QCOSS member organisations and other organisations that attended QCOSS GST Business Skills training sessions.
- Discussions with approximately 50 case study organisations. These organisations were selected from those that identified themselves in the previous survey as being interested in participating in case studies. The consultants visited each of these organisations and used the data collected to design the Phase 2 survey and following stages of the research.

Phase 2:

- A survey, completed during December 2000 to January 2001. This survey was sent out to over 7,000 organisations on a mailing list consisting of organisations that attended QCOSS's GST training sessions, QCOSS organisational members and organisations listed on the Queensland Department of Premier and Cabinet's database of community organisations who receive State Government funding. This survey explored a wide range of impacts of the GST and other elements of *The New Tax System*. A total of 771 completed responses were received, representing an 11% response rate.
- Discussions with approximately 30 case study organisations that had responded to the survey. The discussions with these organisations addressed specific issues identified in the survey. These issues included the reasons small organisations registered for GST and the impact of the GST on volunteers.

Phase 3:

- A survey distributed in June 2001 to over 7,000 organisations using the same database of organisations as the previous survey. This survey tracked GST preparedness, the overall impact of GST and the impact on volunteers. A total of 763 organisations responded to this survey. This represents an 11% response rate.
- A review of the constitutions of 30 case study organisations, who claimed to be Public Benevolent Institution's (PBIs), to examine the extent of compliance.
- A focus group comprising a range of key sector representatives across areas of social policy, taxation and service delivery in Queensland to review the findings and conclusions of the research.

Key Issues:

The research project identified a number of key issues affecting the sector as a result of the introduction of the GST and other parts of *The New Tax System*. These were:

- the cost of compliance;
- the extent of compliance;
- the availability and use of volunteers;
- training and information needs of community sector organisations; and
- organisations in rural and remote areas.

4.0 SUMMARY OF KEY FINDINGS

The research project's findings indicated that most community organisations see the overall impact of the GST and *The New Tax System* as negative for their organisation. The New Tax System has exacerbated or highlighted emerging issues about compliance, administration costs and other issues for the sector. The key findings of the research project include:

- (a) The implementation and administration of *The New Tax System*, of which GST is the main element, has imposed significant financial and emotional costs onto the organisations and individuals that operate within this sector. This research project estimates that implementation of the GST and other parts of *The New Tax System* has cost the sector over \$39 million in start-up costs and will cost a similar amount each year thereafter for ongoing costs of additional staff, administration and systems support. In addition there are significant emotional (psychic) costs caused by the GST related increase in stress and workload.
- (b) There appears to be a significant amount of confusion and misunderstanding about the eligibility and requirements for Income Tax Exempt Charity (ITEC), Deductible Gift Recipient (DGR) and Public Benevolent Institution (PBI) status among the organisations that operate in the sector. There is a need to review the activities and possibly revise the constitutions of many organisations to ensure compliance with legislation. In addition there may be an outstanding FBT liability from previous non-compliance and this may fall upon the employees of these organisations.
- (c) There is an ongoing need for training for staff, board members and volunteers of organisations in the sector about the GST, FBT and other parts of *The New Tax System*.
- (d) There is a need for better access to information and advice about the GST, FBT and other parts of *The New Tax System* especially for organisations in rural and remote areas. ATO information services during the implementation of the system have been significant but many organisations obtained conflicting advice and were not confident that the advice they received was correct for their organisation.
- (e) Organisations in the sector, particularly small organisations, heavily depend on volunteers for the bulk of their financial administration. For example, seventy eight percent of organisations with a turnover of less than \$50,000 per annum, rely solely on volunteers for their financial administration.
- (f) The GST and other parts of *The New Tax System* have increased the administration workload and complexity for organisations in the sector. As a result there has been a reduction in the availability of volunteers to assist organisations with administration. There has been a reduction in the willingness and ability of accountants to provide 'pro-bono' advice and audit services to these organisations due to increased workloads.
- (g) The GST and other parts of *The New Tax System* have further increased the complexity and level of responsibility for board members for organisations in the sector. As a result there appears to be increasing difficulty for organisations in finding suitably experienced board members from their membership or their communities.
- (h) Many organisations have lost a volunteer bookkeeper or Treasurer as a result of *The New Tax System*. Others have had to replace a volunteer bookkeeper with a paid position adding to the cost of administration for the organisation or have had to divert a volunteer from service delivery to handle the increased workload in financial administration as a result of the GST.

"Our volunteer Treasurer left because of the GST. We had to get paid staff to do this work. This increased our operating costs." (*Disability sector organisation*).

- (i) Almost 20% of organisations that rely on volunteers for financial administration have found it harder to find a volunteer bookkeeper or treasurer as a result of the GST and *The New Tax System*. The workload and stress for volunteer bookkeepers and/or treasurers have increased significantly as a result of the GST and *The New Tax System*

“We found it difficult to get people on the management committee because of the extra workload from the GST. We could not get a Treasurer. This role requires a high level of expertise, knowledge and experience to take care of the GST. We had to beg and plead for someone to be Treasurer.” (*Health sector organisation*).

- (j) These factors have led to increased ‘professionalism’ and a higher cost of administration across the sector in general.
- (k) There has been a proportionately greater impact on smaller organisations and *The New Tax System* has reduced the viability of smaller organisations due to the increased administration cost and reduced volunteering. Approximately 50% of community sector organisations have a turnover of less than \$250,000 per annum.
- (l) There has also been a proportionately greater negative impact on rural and regional organisations due to smaller size and lack of community resources.

The above issues confirm the trend to increased ‘professionalism’ in the community sector. These organisations need to have more skills and expertise and better systems and procedures than was required in the past. In many ways this can be seen as a positive trend encouraging better use of funds and management of these organisations. However increasing professionalism has a number of other impacts including:

- higher administration costs for training, systems and other administration, especially for smaller organisations, resulting in a smaller percentage of funds applied to services;
- reduced opportunities and greater difficulties for organisations in finding suitable volunteers which results in disincentives for volunteerism generally;
- greater difficulty in finding people to be board members, especially treasurers ;
- reduced viability of smaller organisations;
- a proportionately greater impact on rural and regional organisations;
- there is a need to seek ways to reduce administration and compliance costs for small organisations, which provide a range of valuable services to the community. This may involve initiatives such as:
 - reducing the level of compliance for small organisations;
 - providing better information about compliance and best practice to organisations in the sector; and
 - providing training opportunities to ensure these organisations have the necessary skills and expertise within their staff, volunteers and board members.

5.0 GST COMPLIANCE COSTS

Our research findings indicate that *The New Tax System*, of which GST is the main element, has had a significant impact on community sector organisations. The research reveals that these organisations have been able to adapt to the new system but have incurred significant financial and emotional costs in the implementation and administration of the new system.

To comply with the requirements of the new system, these organisations have had to incur costs in relation to the following:

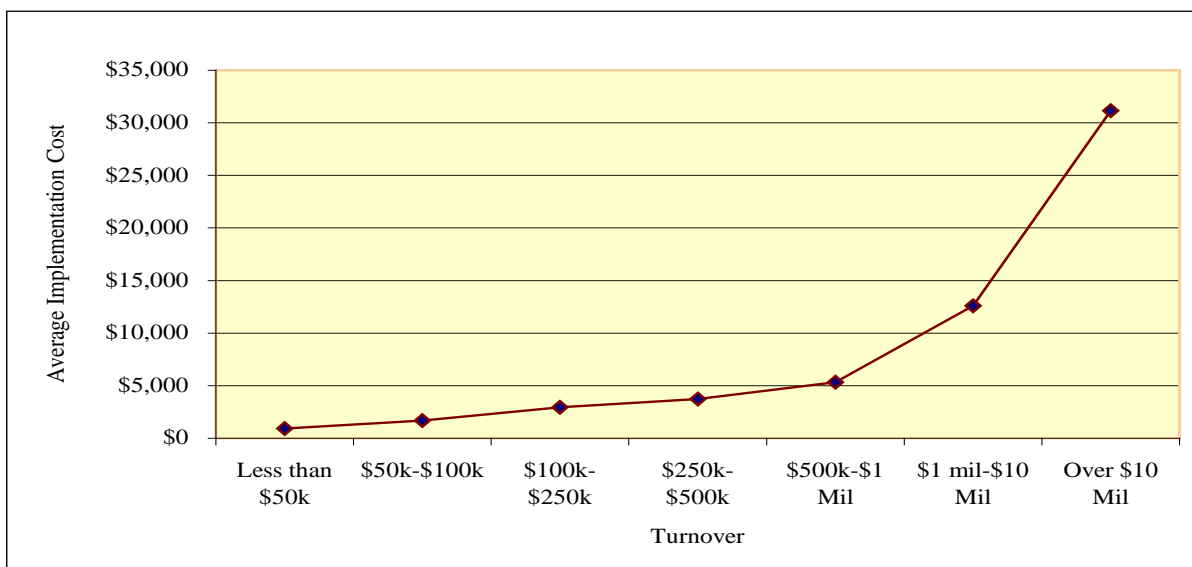
- staff investigating how the system will affect their organisation;
- obtaining advice from external accounting and other advisers;
- developing systems to collect and record the relevant information;
- modifying computer systems – hardware and software - to handle the new system;
- training staff, volunteers and board members;
- liaising with customers and suppliers to ensure they understand and comply with the new system requirements;
- preparing reports to the ATO, in particular the Business Activity Statement (BAS);
- reviewing their constitutions and organisational compliance, and
- reviewing salary packaging to ensure compliance and to take up opportunities offered under Fringe Benefit Tax (FBT) changes.

These costs can broadly be divided into GST start-up (or implementation) costs, which occur with in the first year of the introduction of the GST and recurring (or ongoing) costs that continue on an annual basis.

The surveys asked respondents to estimate both the start-up and recurrent costs associated with the GST and other parts of *The New Tax System*. The method of estimation included staff and volunteer time as well as cash costs of training, additional advice and computer system upgrades.

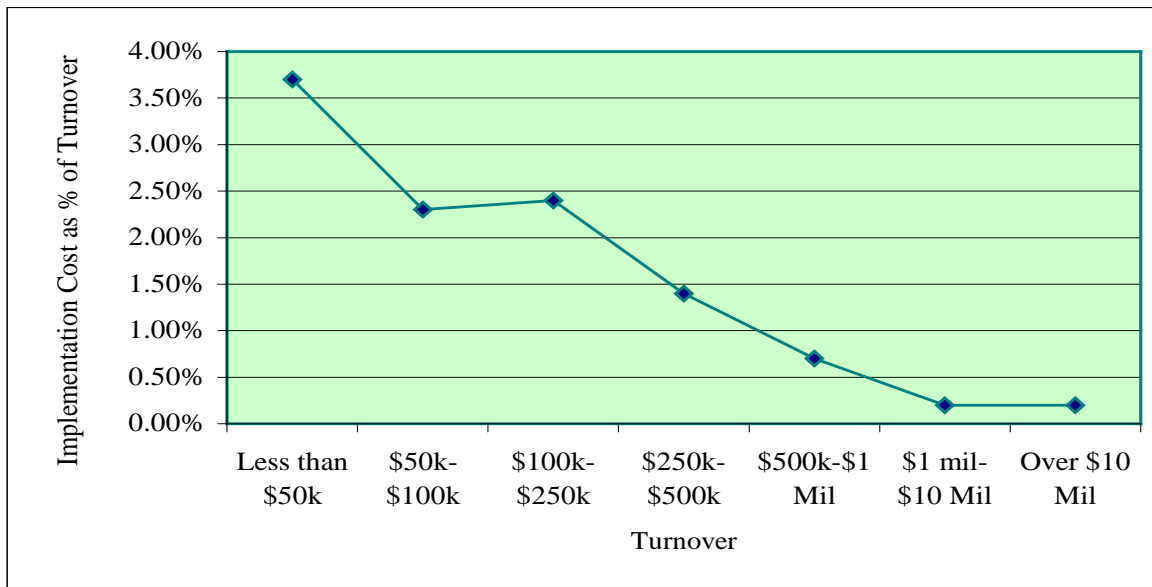
Chart 1 shows the estimated GST start-up costs for each category of turnover. The mean dollar start-up costs of the GST for all community sector organisations in the survey was estimated to be approximately \$5,610 per organisation. Consistent with the empirical evidence overseas, the QCOSS results show that the larger the organisation, the higher the GST start-up costs.

Chart 1: GST Start-up Costs Relative to \$ Turnover



Expressed as a percentage of average category turnover, the start-up costs of the GST and other parts of *The New Tax System* has cost the smallest organisations \$920 on average, which represents 3.7% of their annual turnover. For organisations above \$10 million per annum turnover, the average GST start-up cost is estimated to be \$31,165, or 0.2% of annual turnover. Smaller organisations bear a higher relative impact from the cost of implementation indicating that the costs of the GST are regressive, that is, falling more heavily on smaller organisations. This is shown in Chart 2 below.

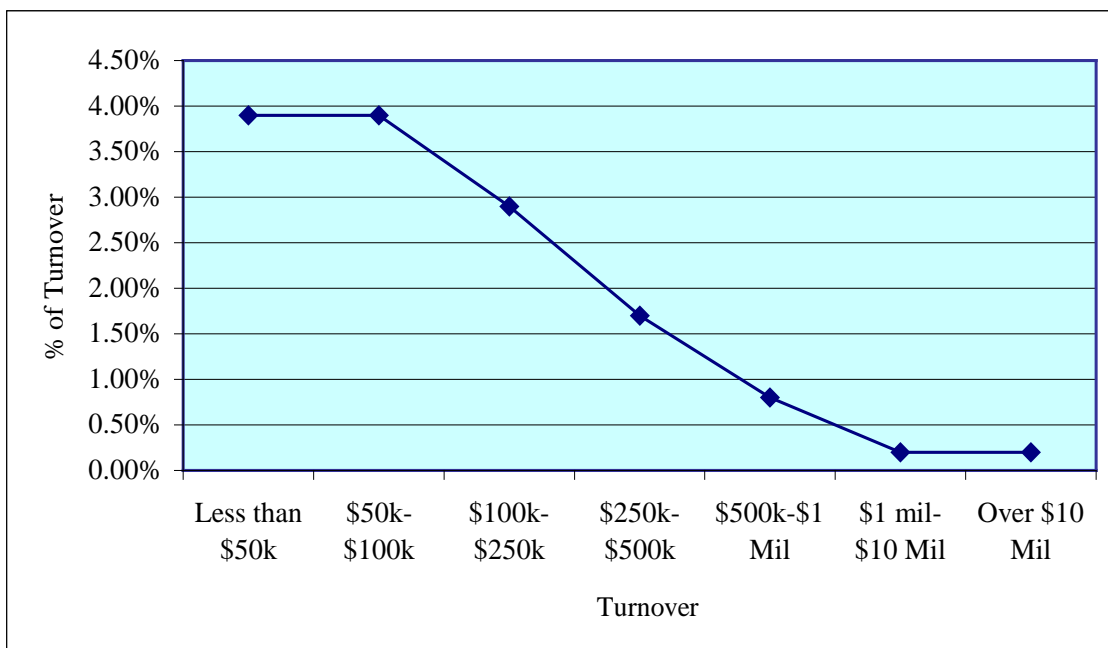
Chart 2: GST Start-up Costs Relative to % Turnover



In terms of mean dollar recurrent costs of the GST, our findings indicated this to be similar to the start-up costs of approximately \$5,600 per annum, which is very similar to the average implementation cost. This cost is mainly a result of increased staff and volunteer time for GST and related administration.

The recurrent cost for the smallest organisations is \$965 on average, which represents 3.9% of their annual turnover. The average on-going cost for organisations above \$10 million per annum turnover is estimated to be \$27,800, or 0.2% of their annual turnover. As with start-up costs, the relative impact of the on-going cost of *The New Tax System* is greater for smaller organisations. This is illustrated in Chart 3 below.

Chart 3: GST Recurrent Costs Relative to % Turnover



If these average costs are applied to the estimated 7,000 community sector organisations in Queensland who receive funding from the State Government, then the total cost of implementing *The*

New Tax System is in the vicinity of \$39 million and a similar amount each year for the ongoing (or recurrent) costs. These figures may underestimate the total implementation costs as there are over 19,000 incorporated associations registered in Queensland alone and over 1,000 companies limited by guarantee.

On 10 September 2001, the Australian Taxation Office released "GST: The First Year" providing a statistical overview of the number and types of entities registered for GST and the revenue collected. According to page 22 of this publication, over 62,500 organisations from this sector registered for the GST in the first twelve months since its introduction on 1 July 2000.

Given that Queensland accounts for 18.5% of Australia's population and assuming that the community sector across Australia is similar to that of Queensland, then the implementation cost of *The New Tax System* for the community sector could be as high as \$350 million.

The relatively higher impact on smaller organisations occurred despite the fact that *The New Tax System* allowed small organisations to opt out of having to register for the GST. Our research project has indicated that almost 80% of community sector organisations that did not have to register, (ie. with a turnover of less than \$100,000 per annum), did so.

The case studies indicated that they have registered for a range of reasons including the fact that many funding agencies require their client organisations to register as part of ongoing contractual arrangements of service agreements. Other organisations were prepared to incur the compliance costs in order to recover input tax credits because they consider that the saving is worth the effort.

The above findings are consistent with international studies of compliance costs. The research study found the GST start-up costs to be regressive (ie. falling more heavily on smaller nonprofit organisations). As most non-profit organisations are inherently small by nature, their taxation compliance costs are proportionately greater when expressed as a percentage of turnover. Furthermore, unlike for-profit businesses, which can claim compliance costs as an income tax deduction, most charities, being income tax exempt, have no such opportunity to do so.

Discussion

Community sector organisations are now faced with increased compliance costs as a result of *The New Tax System* and have had to cover these increased costs through reducing the funds applied to services. Consequently there has been a reduction in services to the communities and groups that these organisations serve.

Some Queensland funding agencies have paid grants to community sector organisations up front, which has enabled these organisations to earn interest on these funds to help offset the increase in compliance cost. However, this effect has not significantly reduced the full increase in compliance costs for these organisations.

The work and commercial pressures on accounting professionals has meant that some have been unwilling to continue free or subsidised advice, accounting and audit services to community sector organisations. Some organisations have been forced to pay more or to pay for these services for the first time. This loss of support from accountants is exacerbated by the fact that community sector organisations report on a similar financial year basis as business and so the need for services from external accountants coincides with the time when accountants are busiest with their other clients.

The complexity of GST and other administration has meant that some volunteers have been unwilling or unable to continue to provide administration support to organisations. Some organisations have had to replace volunteers with paid positions.

It is questionable if the ATO receives a significant amount of GST from small community sector organisations, sufficient to justify the compliance costs. It may be more cost effective for the whole community if the GST and related compliance requirements for community sector organisations, were

simplified. This is particularly important for small organisations, on which the compliance burden is greatest in relative terms.

6.0 THE EXTENT OF COMPLIANCE COMMUNITY SECTOR ORGANISATIONS

The New Tax System had far-reaching implications on the nonprofit sector apart from the GST. Prior to the introduction of *The New Tax System*, compliance with Income Tax Exempt Charity (ITEC), Deductible Gift Recipient (DGR) and Public Benevolent Institution (PBI) status was largely a self-assessment system. The ATO's *Charity Pack* and *Gift Pack* set out the requirements for endorsement as an ITEC, DGR and PBI. The ATO has indicated that it will in future be looking more closely at compliance with these requirements.

The research indicates that there is a high level of confusion and misunderstanding in community sector organisations about the eligibility and requirements for ITEC, DGR and PBI status. Many respondents to our surveys clearly did not understand the eligibility requirements of their status. Approximately 14% of responding organisations did not know if they were a PBI and 10% did not know if they had DGR status. A significant number also gave inconsistent survey results, for example, they were a PBI but not an ITEC.

The examination of the constitutions of 30 organisations, showed that 93% did not comply with the legal requirements as set out by the ATO. The major shortcomings were:

- DGRs with no winding up clause for their gift fund;
- unacceptable dissolution clause for the organisation;
- organisation's object clauses that were very broad, indicating they were probably not PBIs; and
- incorrect nonprofit clauses.

Many of these problems can be addressed by amending the constitutions by resolution of the board of the relevant organisation. However, where an organisation has object clauses that are too broad, the organisation may have to review its current activities and services to determine if it is a PBI, i.e. in operation for the 'direct relief of poverty, sickness, suffering, distress, misfortune, disability or helplessness'. If these organisations are no longer PBIs, they may be liable for Fringe Benefit Tax (FBT) for current and past salary arrangements. This liability may actually fall upon the employees of these organisations. It would appear that some organisations that were originally PBIs have changed their status over time by taking on non-PBI activities but have not reviewed their compliance status and requirements.

Discussion

If we assume the results of this research are representative of the level of compliance in community sector organisations across Queensland, then there is a significant requirement for education and training of staff and board members and for the review of the constitutions of organisations. There may also be a significant FBT liability across the sector.

The findings of the research highlight the complexity of compliance relative to the expertise and advice available to these organisations. They also indicate a low level of understanding of compliance among accounting and legal professionals. In formulating the constitutions, many of these organisations have used professional accounting and legal services, albeit sometimes on a voluntary basis, to draft and review their constitutions and to assist them with major decisions about services and activities.

The research project has identified that small organisations have a relatively higher burden from compliance requirements. The legal obligations of the legislation also fall heavily on these organisations and the volunteers who become members of their boards and who provide other support. The current level of compliance makes it difficult for these organisations to find board members and other volunteers to continue their roles in the community.

The focus group convened as part of this research project came to the conclusion that there is a need to reduce and simplify the level of compliance for community sector organisations. The current level of

complexity is not appropriate given the low level of tax collected from these organisations. Simpler methods for achieving accountability for public funds and adherence to legislation are required, particularly for smaller organisations.

A reduced level of compliance would be of great benefit for the many small organisations that operate in the sector. Approximately 50% of organisations in the sector have a turnover of less than \$250,000 per annum. Many of the compliance requirements for these organisations are identical to those that apply to larger organisations.

While there is a need to ensure compliance with legislation and accountability for the use of community funds, there is a strong case for accepting a higher level of risk for small community organisations and perhaps managing compliance by increasing the frequency of auditing.

The focus group recommended a simplified model of compliance for small community sector organisations to show how such a model might work across the sector. This model could be used to influence Government policy and to encourage community debate about the level of compliance.

7.0 VOLUNTEERS IN COMMUNITY SECTOR ORGANISATIONS

The community sector depends heavily on volunteers for support with administration as well as direct service provision. For approximately 19% of all organisations in this sector, volunteers are responsible for the bulk of financial administration of the organisation. This support comes in the form of both volunteer bookkeepers and volunteer treasurers.

The importance of volunteers for financial administration increases for small organisations. The percentage of community sector organisations that depend on volunteers for the bulk of their financial administration is shown in Table 1 below. Seventy eight percent of organisations with a turnover of less than \$50,000 per annum, rely on volunteers for the financial administration of the organisation.

Table 1: Organisations that depend on Volunteers for the Bulk of Their Financial Administration x Turnover

<i>Turnover Category</i>	<i>%</i>
Less than \$50,000 pa.	78%
\$50,000 to \$100,000 pa.	34%
\$100,000 to \$250,000 pa.	13%
\$250,000 to \$500,000 pa.	5%
\$500,000 to \$1 million pa.	1%
\$1 million to \$10 million pa.	0%
Over \$10 million pa.	0%
Total	19%

Applying the survey percentages to the total number of organisations, indicates that an estimated 630 organisations (ie. 9% of 7,000) organisations in the sector across Queensland lost a volunteer bookkeeper or treasurer as a result of the new system.

Our findings also indicate that approximately 9.5% of organisations, or 665 organisations, replaced a volunteer bookkeeper with a paid position adding to the cost of administration for the organisation. (This number includes some of the above organisations that lost volunteers.) A further 280 organisations have had to divert a volunteer from service delivery to handle the increased workload in financial administration as a result of the GST.

Volunteer bookkeepers and treasurers turn over on a regular basis in most nonprofit organisations. Almost 20% of organisations that rely on volunteers for financial administration found it harder to find a

volunteer bookkeeper or treasurer as a result of the GST and *The New Tax System*. Many organisations reported that the GST and *The New Tax System* had increased the workload and stress for volunteer bookkeeper and/or treasurers.

These results as well as the anecdotal evidence from the case studies indicates that as a result of the GST and New Tax System:

- there is a trend to replacing volunteers with paid staff for financial administration in the sector – resulting in increased administration costs
- the skills and experience required for a volunteer bookkeeper or treasurer in the sector have increased
- the workload, complexity and stress for volunteers involved in financial administration has increased; and
- The new system is likely to have reduced the opportunities for volunteers to assist community organisations with financial administration

Discussion

It appears that the amount and complexity of financial administration and other compliance is increasing, making it more difficult for volunteers to provide these services to organisations in the sector. Many current or potential volunteers may now not be willing to make a contribution to the sector.

The reduction in the use of volunteers for financial administration has increased the costs of financial administration and compliance for many organisations in the sector, particularly small organisations.

8.0 RECOMMENDATIONS OF THE PROJECT

Some of the key recommendations made in respect of this project are as follows:

- the need for a simplified model for GST, FBT and other compliance for small community sector organisations (turnover of less than \$250,000 per annum). This model could be used to stimulate community discussion and influence Government policies about the level of compliance demanded of small organisations in the sector and include the following:
 - model clauses for constitutions;
 - simplified GST/BAS arrangements;
 - simplified FBT arrangements; and
 - standardised/simplified financial reporting to funding agencies.

Such a model should address the need for audit, accountability, fraud prevention etc. but should ensure these controls are appropriate to the level of risks and the nature and resources of these organisations.

- a need for training in GST, FBT and compliance issues for community sector organisations. funding from the ATO and other Government sources should be provided for this purpose;
- a need to identify approaches and funding for provision of centralised advice and information about GST, FBT and compliance issues, especially for organisations in rural and remote areas. support and funding from Government sources, particularly those focused on developing rural and regional communities should be explored; and
- there is a need to find ways to redress the negative impacts of increasing 'professionalism' and compliance on the opportunities and use of volunteers in small community sector organisations.

This paper addresses in more detail three key impacts identified by the GST Project, the costs of compliance; the extent of compliance and the impact on volunteers, for whom this sector is most reliant.

9.0 CONCLUSION AND IMPLICATIONS FOR FUTURE RESEARCH

The need for research in this sector is specifically highlighted by Gurd, B., and Turner, J. as stated in the ATAX publication, *Tax Compliance Costs*, 2001, p. 79:

“We know so little about this sector that we do not even know how many such organisations there are in Australia. No one has yet made any attempts to measure their compliance costs. This gap should be filled, and GST is one motivator for Australian researchers to bridge this lack of knowledge.”

The QCOSS research project is the first known research study of its type in Australia or anywhere in the world to specifically assess the impact of *The New Tax System* (particularly the impact of the GST) on nonprofit organisations. This is surprising given the social and economic significance of nonprofit sector.

Whilst the QCOSS research study is exploratory and explanatory, it provides an indication of the nature and extent of GST compliance costs borne by this sector and the impact that it is having on community service organisations and their ability to deliver their service objective.

This study should be viewed as the first of many studies dealing with the impact of *The New Tax System* on this sector. For too long, this sector has been ignored by compliance cost researchers. More work needs to be done to assess the actual impact of GST recurrent costs on the sector and to compare these findings with similar studies being conducted in the for-profit sector. It would also be useful to compare actual recurrent GST compliance costs to the costs estimated by the Federal Government in their *Regulation Impact Statement for the Introduction of a Goods and Services (RIS)* released in December 1998.

Given the significance of the nonprofit sector, it is important to fill a gap in our knowledge about the impact of GST on this sector. Research findings will provide important data for both Government and public policy analysts concerned with the development and maintenance of social capital. Any adverse policy impact on the sector will require a careful and philosophical policy review.

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